

KENTUCKY OFFICE OF FINANCIAL INSTITUTIONS

1-800-223-2579



DEBIT CARDS VS CREDIT CARDS

www.kfi.state.ky.us

How They Work

Although credit and ATM/debit cards may have the same logo and appear to be very similar, they are different. When consumers use a credit card for a purchase or cash advance they are incurring debt, owing the credit card issuer. The consumer is then obligated to pay back the credit card issuer the amount borrowed plus any interest accrued.

Debit card transactions are processed the same way as a credit card, however instead of going into debt; the payment is withdrawn (debited) from the consumer's checking or other account. When the consumer needs cash, the debit card can be used in an ATM machine to withdraw cash from his/her checking account.

There are advantages and disadvantages to each. Credit cards may allow the consumer more spending freedom with a greater amount of money at his/her disposal. However, consumers should use caution, creating only the amount of debt which the consumer can repay.

Debit cards do not require concern about too much credit since he/she is not going into debt, but a consumer should be careful since a debit card can overdraw a checking account just like too many checks. Good record keeping is essential when using debit cards.

However, debit cards offer less freedom than credit cards because they do not permit the consumer to pay over a period of time, therefore they limit the size and amount of purchases to your checking account balance. When a debit card is used the money is immediately withdrawn from the consumer's account.

What To Do If They're Lost or Stolen

Many people find it easy and convenient to use credit and ATM cards. The Fair Credit Billing Act (FCBA) and the Electronic Funds Transfer Act

(EFTA) offer procedures for you and businesses to use if your cards are lost or stolen.

Limiting Your Financial Loss

Report the loss or theft of your credit and ATM cards to the card issuers as quickly as possible. Many companies have toll-free numbers and 24-hour service to deal with such emergencies. You should also follow up your phone calls with a letter. Include your account number, when you first noticed your card was missing, and the date you first reported the loss.

You also may want to check your homeowner's insurance policy to see if it covers your liability for card thefts. If not, some insurance companies will allow you to change your policy to include this protection.

Credit Card Loss. If you report the loss before the cards are used, the FCBA says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is \$50 per card. This is true even if a thief uses your credit card at an ATM machine to access your credit card account.

However, it's not enough simply to report your credit card loss. After the loss, review your billing statements carefully. If they show any unauthorized charges, send a letter to the card issuer describing each questionable charge. Again, tell the card issuer the date your card was lost or stolen and when you first reported it to them. Be sure to send the letter to the address provided for billing errors. Do not send it with a payment or to the address where you send your payments unless you are directed to do so.

ATM Card Loss. If you report an ATM card missing before it's used without your permission, the EFTA says the card issuer cannot hold you responsible for any unauthorized withdrawals. If unauthorized use occurs before you report it, the amount you can be held liable for depends upon

how quickly you report the loss. For example, if you report the loss within two business days after you realize your card is missing, you will not be responsible for more than \$50 for unauthorized use.

However, if you don't report the loss within two business days after you discover the loss, you could lose up to \$500 because of an unauthorized withdrawal. You risk unlimited loss if you fail to report an unauthorized transfer or withdrawal within 60 days after your bank statement is mailed to you. That means you could lose all the money in your bank account and the unused portion of your line of credit established for overdrafts.

If unauthorized transactions show up on your bank statement, report them to the card issuer as quickly as possible. Once you've reported the loss of your ATM card, you cannot be held liable for additional amounts, even if more unauthorized transactions are made.

In addition, it's a good idea to request a copy of your credit report after a credit or ATM card loss. The report should be reviewed for any credit reporting errors that may have been posted.

Protecting Your Cards

The best protections against card fraud are to know where your cards are at all times and to keep them secure. For ATM card protection, it's important to keep your Personal Identification Number (PIN) a secret. Don't use your address, birth date, phone or social security number. Memorize the number. Statistics show that in one-third of ATM card frauds, cardholders wrote their PINS on their ATM cards or on slips of paper kept with their cards. *The following suggestions may help you protect your credit and ATM card accounts.*

For Credit Cards:

Be cautious about disclosing your account number over the phone unless you know you are dealing with a reputable company.

Never put your account number on the outside of an envelope or on a postcard.

Draw a line through blank spaces on charge slips above the total so the amount cannot be changed.

Don't sign a blank charge slip.

Tear up carbons and save your receipts to check against your monthly billing statements.

Open billing statements promptly and compare them with your receipts. Report mistakes or discrepancies as soon as possible to the special address listed on your statement for "billing inquiries." Under the FCBA, the card issuer must investigate billing errors reported to them within 60 days of the date your statement was mailed to you.

Keep a record — in a safe place separate from your cards — of your account numbers, expiration dates, and the telephone numbers of each card issuer so you can report a loss quickly.

Carry only those cards that you anticipate you'll need.

For ATM cards:

Don't carry your PIN in your wallet or purse or write it on your ATM card.

Never write your PIN on the outside of a deposit slip, an envelope, or on a postcard.

Take your ATM receipt after completing a transaction.

Reconcile all ATM receipts with bank statements as soon as possible.

To request additional quantities of this document at no cost, call or write: 1-800-223-2579, Kentucky Office of Financial Institutions, 1025 Capital Center Drive, Suite 200, Frankfort, KY 40601.

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